0 Finally, from 31st December, 2004 to 31st December, 2005.

While examining the request for extending the period for setting of new units beyond 31st December, 2004, it was observed that any further extension of period for setting up of new units, would defeat the very purpose of the exemption scheme to attract immediate fresh investments and would only result in windfall gains for those units which would now be investing in Kutch, much after the earthquake when the conditions have improved. In any case, as a policy, Government is not in favour of proliferation of area based exemption, as they result in economic distortions, reduce tax base and generally do not result in attracting Jong-term investments.

However, keeping in view the requests from Government of Gujarat, final extension was granted upto 31st December,. 2005. While granting the extension upto 31 st December, 2005, Government of Gujarat was specifically requested to inform the investors that there would be no further extension of the exemption beyond 31.12.2005 and that potential investors should be accordingly advised to expedite their investments.

(b) No. Sir.

Investment for Purchasing dollar to control appreciation of rupee

*50. DR. E.M. SUDARSANA NATCHIAPPAN: Will the Minister of FINANCE be pleased to state:

(a) whether Government and RBI are investing huge money to purchase dollars just to control the appreciation of Indian rupee;

(b) if so, whether it is one of the reasons for inflation in India; and

(c) whether Government would expedite the implementation of the scheme of rupee dollar convert ability?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARMA): (a) The exchange rate policy of the Reserve Bank of India is guided by the broad, principles of careful monitoring and management of exchange rates with flexibility, without a fixed or a pre-announced target or a band, coupled with the ability to intervene as and when necessary. The overall approach to the management of India's foreign exchange reserves takes into account the changing composition of the balance of payments and 'liquidity risks' associated with different types of flows and other requirements. Excess volatility in foreign exchange markets is contained through intervention as and when necessary and followed up by sterilisation of liquidity through issuance of treasury bills/dated securities under the Market Stabilisation Scheme.

(b) The Reserve Bank of India has been sterilising the liquidity impact of such foreign exchange purchases, placing emphasis on price stability and anchoring inflation expectations. Point-to-point inflation -as measured by wholesale price index declined from 5.94 per cent at end-March, 2007 to 4.45 per cent in the week ending July 28, 2007.

(c) The movement towards fuller convertibility of Rupee will necessarily have to be gradual, sequenced and calibrated to the overall macroeconomic situation and emerging needs of the economy.